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C O N F I D E N T I A L TIRANA 000995

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SUBJECT: IMPEDIMENT TO BECHTEL BID TO BUILD KEY SECTION OF HIGHWAY BETWEEN KOSOVO AND DURRES

REF: 2004 TIRANA 00159

Classified By: Ambassador Marcie B. Ries, Reasons 1.4 (b) and (d).

Summary

¶1. (C) Bechtel Corporation on August 7 was selected by the Albanian Ministry of Transportation (MOT) to build a 60 km. segment of difficult mountain road on the main route between the Adriatic port of Durres and the town of Kukes, in northeastern Albania near the Kosovo border. When completed, this will become a major trade corridor, providing Adriatic port access to Kosovo and southern Serbia. Minister of Transport Basha on September 20 told Ambassador Ries that the World Bank (WB) considers the selection process, in which a WB-recommended consultant evaluated four companies on eight criteria, non-competitive and is pressuring the MOT to re-tender. The WB also wants the MOT to re-specify the project as a two-lane instead of a four-lane highway to reduce costs. The MOT argues that time is money, and re-tendering will delay construction by at least a year. The MOT also insists on four lanes for safety reasons, and because a four-lane highway would increase the capacity for freight. This project is important for the economic development of Albania, especially the impoverished north, and could also give positive impetus to Kosovo's economy by providing ready access to a seaport. End Summary.

Expedient Selection

¶2. (SBU) Albania's Ministry of Transport in July 2006 announced an international tender to rebuild and improve a 60 km. segment of road along the route connecting the Adriatic port of Durres with Pristina, capital of Kosovo. The segment lies between the towns of Kalimash and Rreshen through the rugged mountains of northeastern Albania, and is the last of three segments to be renovated/rebuilt on this highway. Completion is expected in early 2009. The project is economically important to both Albania and Kosovo, since it will provide access to the Adriatic port of Durres from Kosovo and southern Serbia. The MOT's selection process was designed to minimize the time required before construction could begin.

¶3. (SBU) Four companies -- Bechtel (UK office), Strabag (Germany), Al Kharafi Group (Kuwait), and Konstruktor (Croatia) -- submitted proposals focusing not on the project

itself, but on the company's ability to do the job. An evaluation committee led by Dutch Ecorys Group, one of the companies recommended by the WB, evaluated the bidders on eight criteria, such as experience on regional projects, unit pricing models, and annual turnover, and selected Bechtel on August 7. Because Ecorys evaluated the responses of each company to only these eight criteria, the evaluation took only a matter of days. The MOT expects to conclude price negotiations with Bechtel and issue a Government decision approving the contract by the end of September.

Financing

¶4. (C) The GOA is planning to finance the Rreshin - Kalimash project through USD 350 million budget financing over four years, supplemented by institutional loans, and set a target cost of USD 500 million. (Note: This target cost was not made public and has been misreported by the press.) Potential lenders/donors that have expressed interest include Ex-Im, the European Investment Bank, the Kuwait Development Bank, the Overseas Private Investment Corporation (OPIC), and the Islamic Development Bank. Minister of Transport Basha on September 20 told Ambassador Ries that Bechtel would meet the target price. The segment between Kukes and the Kosovo border has already been awarded to seven Albanian companies at a total cost of USD 70 million and construction has begun.

A short segment near the western end, between the towns of Milot and Rreshen, is currently out for bid and will be financed by the WB.

The WB Objects

¶5. (C) Although the WB does not have a financial stake in the Kalimash-Rreshen project, Prime Minister Berisha on September 15 told Ambassador Ries that he had heard the WB was unhappy with the way Bechtel was chosen and would oppose the project.

Minister of Transportation Basha on September 17 told the Ambassador that World Bank Country Director for South-East Europe, Orsalia Kalantzopoulos, told him she strongly opposed the project, citing potential problems with Belgrade and Athens. According to Basha, the WB says the selection of Bechtel was non-competitive, and all bidders should have been asked for pricing proposals. In addition, the WB is insisting on a two-lane highway to keep costs down.

Basha Counters

¶6. (C) Basha told the Ambassador that the selection of Bechtel was done transparently (the WB does not dispute the transparency of the process) and in accordance with EU norms.

He said the MOT chose this selection methodology to save time, emphasizing that the company used by the GOA to evaluate the bids was the one recommended by the WB. Further, the Bank had evinced no objections when the competition was held. It was only very recently, when Kalantzopoulos visited, that she raised objections. Evaluating and comparing different unit pricing models from multiple bidders could have delayed start of construction by a year. According to Basha, the costs of such projects increase every year. In addition, he calculates that the net economic benefit to Albania of a completed, four-lane highway will be over USD 80 million per year, so that a year's delay could cost the country well over USD 100 million. Basha also said that a Slovenian engineering company did an independent rough estimate of the cost, and came up with much higher figures than Bechtel's.

¶7. (C) As for the four-lane argument, Basha pointed out that the two-lane highway the WB insisted on from Durres to the northern city of Shkoder is one of the most dangerous in Albania, despite the fact that the terrain is relatively flat. He will not budge on a four-lane highway from Durres to the Kosovo border for safety reasons, since the road is a twisty, mountainous road expected to support heavy truck

traffic, and subject to snow and ice during the winter. Although initial costs will be higher than for a two-lane road, he expects a higher economic return since a four-lane road will attract more commercial truck traffic. He also pointed out that widening a two-lane highway in the future would be much more expensive than building a four-lane road in the first place.

¶8. (C) Concerning Kalantzopoulos' political arguments, Basha said he has discussed the project with his Serbian and Greek counterparts, and received no objections from them. He also told the Ambassador that Kalantzopoulos had raised concerns about this highway diverting freight coming from Serbia and Kosovo to Thessaloniki. While he agreed that cargo from the southern Serbian town of Nis could reach Durres in about four hours on the new road, roughly the same time it now takes to go to Thessaloniki, he said that Durres should be seen not as a competitor to the port of Thessaloniki, but as a complimentary seaport to others in the region, and as part of an overall regional transportation plan. Basha mentioned that Kalantzopoulos had opposed and shut down other Albanian infrastructure projects, including a thermal power plant in Fier and a General Electric bid on a USD 73 million rail project. (Please see reftel. GE is currently suing the GOA for breach of contract.)

Tom Ridge Will Advise

¶9. (C) Minister Basha said that former Secretary of Homeland Security, and now advisor to the PM, Tom Ridge, would evaluate the proposal and advise the GOA on a course of action. Basha thinks that Ridge might ask him to come to Washington to promote the project.

Comment

¶10. (C) Albania's poor infrastructure is high on everyone's list of obstacles to economic growth. A transport corridor

connecting Kosovo to the Adriatic would not only help Albania's trade, but Kosovo's as well. We ought to work with the GOA to help resolve whatever objections the World Bank might have.

RIES